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MART

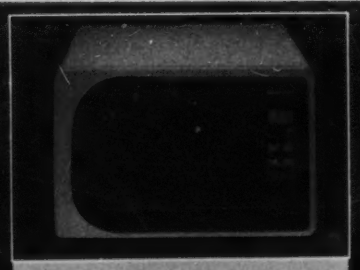
BUSINESS IDEAS FOR TODAY'S RETAILERS AND DISTRIBUTORS

GORDON PUBLICATIONS, INC.

JUNE 1987

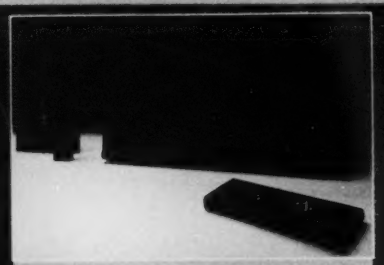
TELECOMMUNICATIONS

To combat the margin "hang up" in TADs, shrewd merchants have come up with a new pitch for consumers.



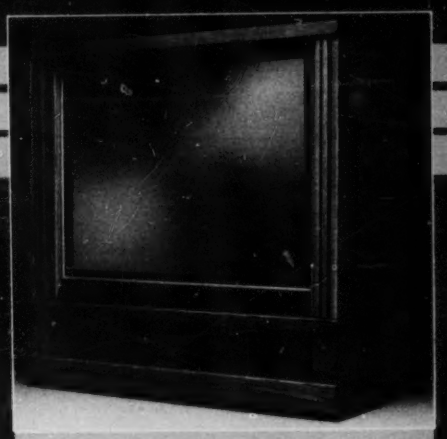
APPLIANCES

From supermarkets to video shops, microwave oven suppliers are looking up new angles on distribution.



CES NOTABLES

The cream of this summer's crop includes a CD player with video, a VCR that uses a bar code scanner and



HOME ELECTRONICS

Can you make big bucks in big screen TV? Tune into the market with an exclusive report from Cores Corp. and MART.

THE VCR MARKET TAKES A TURN

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MART
Business Ideas for Today's Retailers and Distributors

COVER STORY

7

The VCR market takes a turn

How will flattening sales of VCRs affect the marketplace? MART's Elliot King takes a look.

Just A Minute! 6

RETAILING

13 New Silo set for expansion

The chain's recent acquisition by the British firm Dixons could mean even bigger things for an already huge chain.

HOME ELECTRONICS

14 Electronics — Mexican style

What happens when Japanese high technology meets the Mexican wage-earner? MART found out recently on a trip South of the Border.

16 CD goes video!

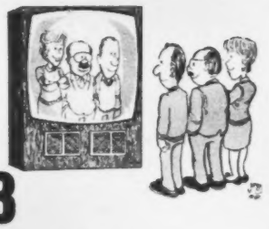
Is it LaserVision or is it audio? Not even the manufacturers know for sure about CD-Video, the industry's newest addition.

32 Kiddietronics come of age

You may be excited by the latest generation of electronic children's toys, but its toystores only — at least for now.

In Brief 18
Home office study 20
New lines in review 21
Video Monitor/Top 10 22
CES Notables 24
Homeworker 26
Big Blue leaves home 27
DAT legislative update 31

SPECIAL REPORT



33 Projection television: The 1987 market

Cores Corporation and MART team up for a comprehensive look at the big screen marketplace.

The accessories jungle 17

TELECOMMUNICATIONS

40 Market physics make TAD profits fizzle

Margin erosion may be a law of science, but some dealers have devised new formulas to beat the odds.

Open Line 40
What's New 43

APPLIANCES

44 Microwaves radiate to housewares stores

Supermarkets, drug stores and even some audio/video specialists are now dabbling in quick-cookers.

In Brief 47
AHAM's meeting 49
My Way 52
Another Minute 54
MART's Faces 54

VBPA
ABP

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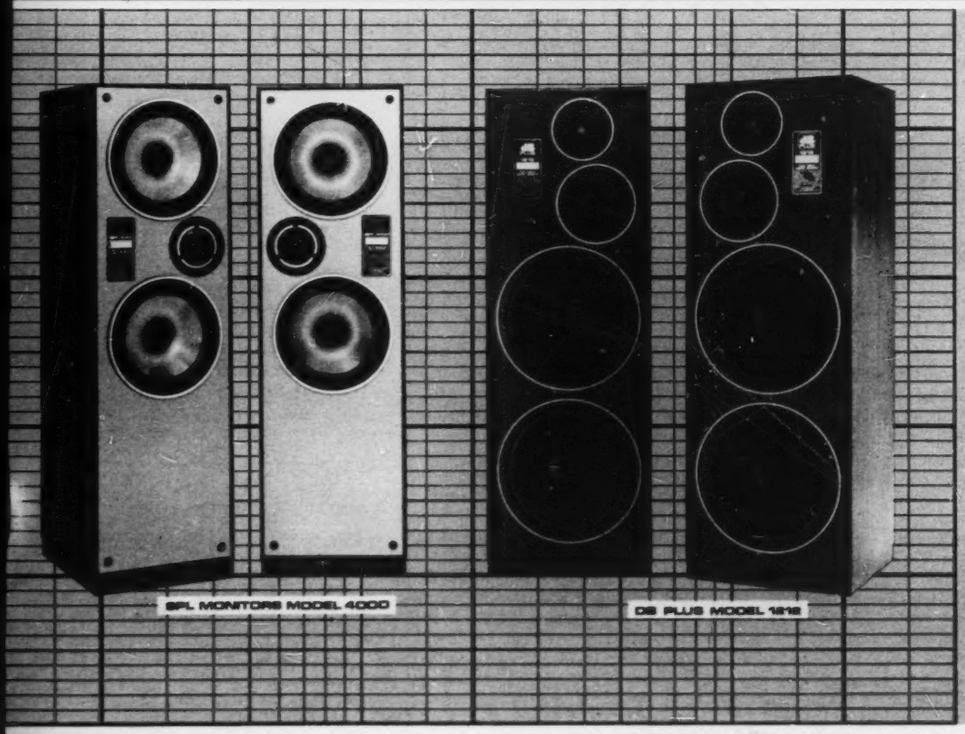

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Circle **103** on Reader Service Card

SPECIAL REPORT

Is your accessories business in order?

TWO HUNDRED suppliers . . . One hundred and eighteen THOUSAND skus . . . Boenker/Thomas Associates sort out the accessories jungle.

You approach the information booth at CES and ask innocently, "Where do I find accessories?" Half-an-hour and reams of computer print-outs later, you are staring at a list of more than 230 accessory manufacturers. You are lost.

You face not only an unbelievably vast array of product, but troops of salespeople promising mega profits in exchange for a little shelf space and a purchase order. It makes you wonder: Is this business of accessories really worth it?

With an average retail price of $14 and margins that typically exceed 55 percent, you bet it's worth it. To use a well-worn phrase, accessories are a first-rate opportunity to boost store profit.

But, with 118,000 some odd skus from a couple hundred suppliers, selecting a line becomes an ardous task. And in case you haven't noticed, the industry has come a long way since the days of cotton swabs and alcohol and "zip" cord.

Boenker/Thomas Associates visited nearly 200 key retail stores across the country to find out how accessories are really merchandised and sold. Our mission, in part, was to find out what dealers are doing right, and what they are doing wrong. Below we summarize the findings of our survey and offer some advice that hopefully will help you shore up your add-on sales.

Our survey base was very broad — from Sears to Hillcrest Hi Fi to Trak Auto Parts to Highland Appliance to Long's Drugs. Using a standardized questionnaire, we examined product categories, brand names, pricing and volume. We began surveying in January and are continually updating the information.

For the purposes of this study, an accessory is defined as an item that is of limited function by itself, but when combined with another product — like a VCR — enhances the value, performance, capability or use of that product. We looked at the following categories: audio (record, compact disc and cassette), video (VCR, camera and TV), micro computer, telephone, storage and blank media.

Before getting into our findings, here are a couple of basics: Suggested retail prices of today's accessory lot range from less than 50 cents to more than $150. Margins on these products start at 33 percent and reach 80 percent and higher.

What we found may amaze you— it did us. While some retail operations, like Needle In A Haystack, devote almost entire stores to accessories, others stock none. One major department store, we learned, even sends its customers to a local Radio Shack for hookup cables and the like!

The age, assortment, pricing and display of products in retail stores tells an interesting, yet unfortunate tale. Many retailers do not treat accessories seriously. In some stores (9 percent), management had no idea what was in stock and how old the merchandise was, let alone where it was. A high margin widget becomes a low visibility "where's it" in far too many instances.

Retailers — particularly mass merchants and chain stores — are, indeed, having a tough time with accessories. Although many manufacturers offer displays, very few of the stores we visited actually use them. Most (47 percent) use standard wall pegboard displays, or custom-built wall racks with peg-hooks. Of the displays we saw, 34 percent were wholewall pegboard, 18 percent free-standing pegboard and 16 percent glass cases or under-counter displays.

Furthermore, we found that a substantial amount of product was displayed near the checkout counter or under lock and key in an accessories department — not in close proximity to related hardware. Another bothersome, yet common find was the "wall of accessories" where a "sea" of gadgets are presented in no logical manner.

Product packaging emerged as another problematic area. In many cases, empty, torn or dirty packages were on display. It appears that adhesive tape is the preferred method of "repackaging" returned merchandise. And in a small, but notable group of the stores we visited, price tags were elusive. Fifteen percent of those surveyed had either no price on the merchandise or placed stickers on the back of packages.

Blank magnetic media, as you might expect, turned out to be one of the most widely sold products — all stores carried at least brand. And, on the average, they stocked four brands with 10 skus. Nearly three-quarters of the mass merchants we visited carry blank floppy disks.

We stumbled across some interesting "new" add-on items. It appears that video rental stores are pioneering candy, soda and popcorn — 38 percent of those surveyed listed one or more of these items as a new category.

Storage products for audio and video were stocked by 58 percent of the stores. And, although 38 percent of all survey participants carry CD cleaners, many expressed difficulty selling the product.

If one point hit home, it is that many retailers in the accessories business can greatly improve the category's performance by paying a little more attention to it.

Although we met some dealers who were doing 10 percent of their total home electronics business in accessories, we found 5 percent to be a more reasonable objective for most retailers. It should be noted here that turns are averaging three to four per year — not too shabby, huh?

How do you make accessories a viable business?

Start by treating the category as if it were a major line worth 5 percent of your business — treat it as you would a Zenith or an RCA.

Next, choose suppliers that offer more than quality products. Look for services such as product and inventory analysis as well as advice on what's hot and what's not. Are their stocking and shipping practices in tune with your projected turns? Do they advertise or help you advertise?

Stick to two, or at most, three key manufacturers. Position one as the economy line and use it for promotional tie-ins. The second line should appeal to your upscale shoppers and present a step-up in image and price. Make sure your salespeople sell the premium line along with major hardware purchases — and never, never give these items away.

In most lines, 20 percent of the product does 80 percent of the volume and/or dollars. With this in mind, it's critically important to monitor the movement of your stock. Find out what's hot and why; then exploit it. Remember, dead stock means dead profit. Small ticket items do add up.

Accessories should be merchandised according to your store's image. If your operation touts full service, then be sure to group products so they can be easily identified and sold by your salespeople. Don't put them at the checkout counter — it's too late to be adding on at that stage of the sale.

In the end, accessories make perfect cents. It's been said before — most recognize their importance, but few successfully exploit the opportunity.□

(Editor's note: The preceding article was prepared by Boenker/Thomas Associates and edited by MART.*)*

Editorial Feedback
Please circle the appropriate number on the Retailer Service Card. Do accessories account for five percent or more of your home electronics business?

YES—337 *NO—338*

ACCESSORY RETAILING AT A GLANCE

TYPE OF RETAIL OPERATION	Mass Merchant	Department Store	Computer Specialty	Electronics/Specialty	Electronics/Appliance	Catalogue Showroom	Drug & Grocery	Hardware, Auto Parts	Toy Specialty	Record, Tape & CD	Video Rental	
Retail Price	4.67	7.50	—	18.50	16.13	11.40	4.58	7.56	—	8.78	10.79	**Audio**
Number of SKUs	6.9	5.0	—	6.0	4.0	4.7	2.0	2.0	—	11.8	4.8	
Retail Price	9.70	15.34	—	17.86	11.27	11.96	12.71	5.00	9.48	12.27	21.43	**Video**
Number of SKUs	4.0	3.5	—	3.8	5.0	1.0	2.2	6.8	1.0	3.2	3.0	
Retail Price	6.49	7.49	—	7.03	3.94	5.24	3.92	3.23	2.97	—	—	**Telephone**
Number of SKUs	5.6	2.0	—	3.5	2.0	3.0	4.5	5.0	3.0	—	—	
Retail Price	7.48	12.63	11.45	19.23	9.76	5.79	4.53	4.99	10.23	11.65	12.47	**Storage**
Number of SKUs	4.3	3.3	1.5	2.3	2.5	1.0	1.5	3.0	4.0	4.5	1.0	
Retail Price	14.14	15.04	30.77	17.75	16.41	3.92	7.40	6.45	11.12	10.33	17.33	**Average***
Number of SKUs	19.9	11.8	6.0	18.4	9.5	10.3	5.7	8.0	7.0	18.4	6.1	

*Source: Boenker/Thomas Associates, 1987 (Explanation: Retail prices and number of SKUs are typical figures. *Averages are for all accessories stocked by a given retail channel.)*

Beyond home office hype

Is the home office market all that it's cracked up to be? Sharp puts things into perspective.

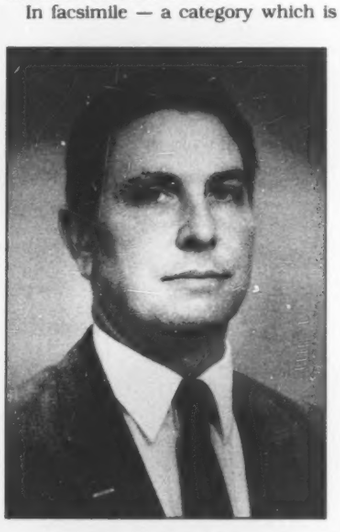
True or false: The home office product category everyone has been hyping lately is really just a new merchandising twist for a bunch of old, well-known products.

If you haven't looked too closely at the market, you may be inclined to say "true." But pose this question to John Widlicka, general manager of Sharp's Personal Office Electronics Division, and he'll respond with a decisive "false."

Beyond phones, typewriters and other traditional office products lies a new generation of products that have been carefully crafted for the small business person, Widlicka says. Personal copiers and facsimile machines offer the best examples of this metamorphosis.

"Copiers that existed in the past were much more complicated and costly," he explains. "And they were designed for medium to large businesses." Today, personal copiers from Canon, Sharp and others are far easier to use and maintain than clunky commercial machines — not to mention their lower cost.

In facsimile — a category which is quickly becoming vogue — manufacturers have devised machines with built-in phones and copiers. And Panasonic has taken the integrated fax concept a step further by adding an answering machine to its newest fax outfit. Expected to ship next month, the machine combines fax, phone, copier and answerer in one compact package. The retail price? Just shy of $2,000.



Integrated products are the wave of the future in the home office market, Widlicka believes.

Integrated products are the wave of the future in the home office market, Widlicka believes. Eventually, everything you'll need to conduct business out of your home will be contained in a single, desktop workstation, he says.

So, with products like these in mind, just who is it that retailers, distributors and manufacturers are trying to reach?

Research compiled by Sharp indicates that small companies — a significant portion of which operate out of the home — represent the single best opportunity for sales of home office products. In a marketing overview released in March, Sharp defines small companies as those with one to nine employees that do under $500,000 in annual sales.

According to U.S. government statistics, small businesses account for the vast majority of all companies. And even though they represent only 26 percent of all sales, Sharp is still placing a heavy bet on the non-storefront segment of this market.

Estimates from the Internal Revenue Service, which are considered to be very conservative due to the under reporting of income, indicate that 6 million people work at home. And that number is expected to double in the coming decade. Other studies suggest much larger numbers, including a benchmark survey conducted by New York-based Electronic Services Unlimited, a division of Link Resources.

ESU scientifically polled 850 homeworker households last year and found that between 13 and 14 million Americans do varying degrees of work at home. Home businesses, ESU reported, are operated by 7.5 million people, while corporate home workers number more than 8 million. Counted in the latter category are those who work at home during the daytime, after hours and on weekends.

The federal government also predicts huge growth in the work-at-home segment, estimating that one-third of the labor force will work from home within the next 20 years.

Consider for a moment that, on average, small businesses anticipate spending $1,818 this year on office equipment (see chart). Even using the IRS' conservative figures — that's potentially $10.9 billion in sales.

Home business people are male more often than not, middle-aged and part of a household that earns $42,800 a year, according to a survey of 2,500 home workers that Sharp cites in its marketing overview. More precisely, the split between male and female home workers is 60/40 and their median age is 46. About half of all home workers are between 35 and 54 years-old.

Most work-at-homers are married (85 percent) and, as noted above, have a median household income of $42,800. Those who have been in business five years or less report a lower income of $34,900 on average, which jumps to $48,600 for operations in business six years or more.

Nearly 40 percent of work-at-homers are college grads, with just over 16 percent of these holding only four-year degrees and 23 percent having at least some post-graduate studies. Although more than half of the work-at-homers do not have a college degree, almost 28 percent are presently attending college or have taken some courses.

Incredibly, Sharp reports that small companies spent $2,052 on office equipment during the past year and plan on spending $1,818 this year (as noted earlier).

Heading the list of equipment small business people say they expect to purchase in the coming months are personal computers, with 20.3 of those surveyed reporting such intentions. Next in line is copiers (13.7 percent), followed by word processors (13.3 percent), printers (13.3 percent), office furniture (7.7 percent), typewriters (7 percent) and telephone equipment (6.3 percent). (See accompanying chart for rundown of products most common to home offices.)

While the office products dealer is still the foundation of the home office business, other retail channels are beginning to make some headway. Luskins, Silo, Circuit City and Federated are examples of power retailers who are merchandising the category. And Lechmere, the Massachusetts-based mass merchant, is widely regarded as the premiere home office retailer. Even Montgomery Ward is dedicating space to the category in the Focus electronics stores it began rolling out this spring.

There's definitely a market for home office products. How big is it? That depends on how liberal you are. □

Bob Ankosko

PRODUCTS IN TYPICAL HOME OFFICE

- **Calculators** - 87.3%
- **Typewriters** - 82%
- **Telephones** - 72.7%
- **Office furniture** - 72.7%
- **Computers** - 29%
- **Copiers** - 28.7%
- **Printers** - 21.7%

Source: Sharp Electronics

HOMEWORKER PROFILE

- **Gender:** 60% male
- **Median age:** 46.4
- **Marital status:** 85.3% married
- **Education:** 39% college grads
- **Median household income:** $42,800
- **Purchases last year:** $2,052*
- **Purchases this year:** $1,818 (anticipated)*

Source: Sharp Electronics

*(*Average for small companies. See text for definition.)*

MARKET FACTS ON FAX & MINI COPIER

Mini-copiers

- **1985 unit sales:** 200,000*
- **1989 unit sales (proj.):** 500,000
- **1985 avg. unit price:** $1,022
- **1989 est. avg. unit price:** $500 or less

Low-range fax machines**

- **1985 unit sales:** 5,000
- **1990 unit sales (proj.):** 120,000
- **1990 est. avg. selling price:** $1,500

All fax machines**

- **1985 unit sales:** 156,800
- **1990 unit sales (proj.):** 402,800
- **1990 est. share of G3 machines:** 95%

Source Sharp Electronics

*(*190,000 of personal copiers sold in 1985 are estimated to be Canon machines. **Low-range fax machines are defined as those selling for less than $2,000.)*

Editorial Feedback
Please circle the appropriate number on the Retailer Service Card. Do you have a home office department?

YES—321 *NO—322*